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# **2nd BIENNIAL REPORT**



**LEGISLATIVE AUDITOR**

*State of Montana*

DECEMBER 1970

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STATE OF MONTANA

SECOND BIENNIAL REPORT

of the

LEGISLATIVE AUDITOR

December 1970

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senators

Carroll A. Graham, Chairman  
William L. Mathers, Secretary  
William R. Mackay  
Cornie R. Thiessen

Representatives

Norris Nichols, Vice Chairman  
Harold E. Gerke  
H. O. Worden  
William H. Zimmer

Morris L. Brusett, C.P.A.  
Legislative Auditor



SECOND BIENNIAL REPORT

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LEGISLATIVE AUDITOR

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IN MEMORIAM

Representative James P. Nugent, appointed to the Legislative Audit Committee in March 1969, passed away on January 26, 1970. He was serving his second term in the House of Representatives and his first term on the Legislative Audit Committee.

At its meeting on February 24, 1970, the Legislative Audit Committee adopted the following resolution which expresses our feeling for the loss of Representative Nugent.

*WHEREAS, The members of the Montana Legislative Audit Committee desire to record their deep sorrow at the death of their esteemed associate, James P. Nugent, who since March, 1969, served as a member of this Committee, be it*

*RESOLVED, That the Committee Members of this Montana Legislative Audit Committee hereby gives formal expression of its grievous loss in the death of James P. Nugent, and does hereby note in its records the passing from this life of a man who was esteemed by his associates, loved by his friends, and respected by all.*

*RESOLVED FURTHER, That a copy of this resolution be tendered to his family as a humble expression of the Committee's heartfelt sympathy in its bereavement.*







STATE OF MONTANA  
*Office of the Legislative Auditor*

STATE CAPITOL  
HELENA, MONTANA 59601

December 31, 1970

TO THE MEMBERS OF THE FORTY-SECOND LEGISLATIVE ASSEMBLY

A continuation of the first biennial report of the legislative auditor issued in December 1968, this second biennial report is prepared pursuant to Section 79-2308(6), R.C.M. 1947. The report is presented to give a brief background of the development of the legislative audit function in Montana (the first report went into this in greater detail), illustrate the progress in fiscal control accomplished or being accomplished as a result of the function, and outline the plans for the future of the program.

As pointed out in the first biennial report, the prime purpose of the legislative audit function is to provide a meaningful fiscal control service to Montana's citizens. I believe the progress made during the 3-1/2 years of existence of this function, as summarized in this report, illustrates that this purpose is being fulfilled.

While much remains to be done to bring the state's financial management program to an effective level, significant strides have been made since the inception of the Legislative Audit Committee and this office. We believe the legislative audit function has served as a catalyst for these improvements. The implementation of recommendations made in the first reports of the legislative auditor such as the establishment of a

management systems unit, a central payroll system, and a plan for the pro rata distribution of central administrative costs have resulted in important improvements in information and reductions in cost. Implementation of our recommendations made during the last two years should result in similar improvements and savings.

Savings realized from audits are often difficult to identify in terms of dollars. Moneys that are either collected or retained by the state that would have been lost due to ineffective controls, inefficient procedures, or lack of adequate information had the audit not been conducted, are the material savings. Although such savings cannot always be specifically identified, we believe they are substantial. In addition to some of the more material examples cited above where reduced costs or increased revenues have been realized based upon previous recommendations of the legislative auditor, additional examples are discussed in this report under the heading "Audits of State Agencies" where these benefits will be realized upon implementation of recommendations we have made during the last two years.

The level of acceptance of our recommendations has continued to be very encouraging. Of the 579 recommendations for which official replies were received during 1969 and 1970, over 95% were accepted for implementation by the replying official or for further study before implementation. Preliminary discussions with the officials of the Montana University System indicate that a high percentage of acceptance will be realized for the 188 recommendations contained in our audit reports issued in December 1970 on the three largest state university units.

The continued excellent cooperation and assistance of the state officials and state agency personnel with whom we have worked has made our task less difficult and has resulted in more timely improvements in the state's

financial management program than could have otherwise been achieved.

As was the case with the first Legislative Audit Committee, a prime reason for the success of the legislative audit program over the last two years has been the interest in, and support of, the program by the Legislative Audit Committee. I would especially like to express my gratitude to the committee members for this.

Respectfully submitted,

*Morris L. Brusett*

Morris L. Brusett  
Legislative Auditor

## LEGISLATIVE AUDIT ACT

The 1967 Legislative Assembly established the Legislative Audit Committee and the Office of the Legislative Auditor by the enactment into law of the "Legislative Audit Act." This act added Chapter 23 to Title 79, of the Revised Codes of Montana, 1947, and is reproduced in its entirety in Appendix E of this report. A summary of a report issued in 1962 by the Montana Legislative Council on which the act was based is presented in Appendix G of this report. The purpose for the act and some of its more significant provisions are summarized below.

### Legislative Purpose

The Legislative Audit Act states the purpose of the legislative audit function as follows:

"Because the Legislative Assembly is responsible for authorizing the expenditure of public moneys, designating the sources from which moneys may be collected, shaping the administration to perform the work of state government, and is held finally accountable for fiscal policy, the Legislative Assembly should also be responsible for the audit of fiscal accounts and records so that it may be assured that its directives have been faithfully carried out. It is the intent of this act that each agency of state government be audited for the purpose of furnishing the Legislative Assembly with factual information vital to the discharge of its legislative duties."

### Legislative Audit Committee

The Legislative Audit Committee consists of four members of the Senate and four members of the House of Representatives. The act provides that the members are to be appointed before the sixtieth legislative day in the same manner as standing committees of the respective houses are appointed. A vacancy on the committee occurring when the Legislative Assembly is not in session shall be filled by the selection of a member of the Legislative Assembly by the remaining members of the committee. The committee is bipartisan in that no more than two of the members from each house can be

members of the same political party. The act further provides that membership on the committee shall terminate with the termination of each member's term of office, or on December 31 of the year following the year in which the appointment was made, whichever event first occurs. The committee shall elect one of its members as chairman and such other officers as it deems necessary.

The duties and responsibilities of the committee are to appoint the legislative auditor, and to meet once each quarter to advise and consult with the legislative auditor.

#### Legislative Auditor

The legislative auditor is solely responsible to the Legislative Assembly. He shall hold office for a term of two years beginning with July 1 of each odd numbered year. The committee may remove him for misfeasance, malfeasance or nonfeasance in office at any time after notice and hearing.

The primary duties of the legislative auditor are to:

- (1) Audit the financial affairs and transactions of every state agency and prepare a written report of each audit; and
- (2) Assist the Legislative Assembly, its committees, and its members by gathering and analyzing information relating to the fiscal affairs of state government during legislative sessions.

The objectives of audits of state agencies conducted by the legislative auditor are to determine whether:

- (1) The agency is carrying out only those activities or programs authorized by the Legislative Assembly and is conducting them efficiently and effectively.
- (2) Expenditures are made only in furtherance of authorized activities and in accordance with the requirements of applicable laws and regulations.
- (3) The agency collects and accounts properly for all revenues and receipts arising from its activities.

- (4) The assets of the agency or in its custody are adequately safeguarded and controlled and utilized in an efficient manner.
- (5) Reports and financial statements by the agency to the Governor, the Legislative Assembly, and central control agencies disclose fully the nature and scope of the activities conducted, and provide a proper basis for evaluating the agency's operations.

The reports of the legislative auditor may include comments, recommendations and suggestions, but he shall have no power to enforce them nor shall he otherwise influence or direct executive or legislative action.

All state agencies are required to aid and assist the legislative auditor in the auditing of books, accounts and records. The legislative auditor may examine at any time the books, accounts and records, confidential or otherwise, of a state agency; however, this shall not be construed as authorizing the publication of information which the law prohibits publishing.

#### ACTIVITIES OF THE LEGISLATIVE AUDIT COMMITTEE

##### Membership of the Committee

The following senators and representatives are the members of the Legislative Audit Committee:

<u>Senators</u>	<u>Representatives</u>
Carroll A. Graham Eighth District	Harold E. Gerke Ninth District
William R. Mackay Thirteenth District	Norris Nichols Twenty-fifth District
William L. Mathers Seventh District	H. O. Worden Twenty-sixth District
Cornie R. Thiessen Third District	William H. Zimmer Thirtieth District

Senator Carroll A. Grahsm of Lodge Grass was elected chairman of the committee for the 1969-70 interim at its meeting on March 11, 1969. Representative Norris Nichols of Stevensville was elected vice chairman and

Senator William L. Mathers of Miles City was re-elected secretary of the committee.

#### Meetings of the Committee

The Legislative Audit Committee held 9 meetings during the 1969-70 interim. At these meetings, the committee elected its officers, re-established its rules, re-appointed the legislative auditor, adopted a detail budget and received financial reports of the legislative auditor's operations, approved the audit program of the legislative auditor, and received the audit reports of the legislative auditor and replies thereto of the state agencies affected by the legislative auditor's recommendations.

#### Office Space

The Legislative Audit Committee agreed that the legislative audit function can operate at maximum efficiency only if the Office of the Legislative Auditor is conveniently located near the major state agencies and concluded that it should be in the state capitol building. The office has been assigned permanent space in the area designated as Room #140 on the first floor of the capitol building. The committee ordinarily utilizes the Legislative Council's conference room for its meetings.

#### Adoption of Rules

At its meeting on July 14, 1969, the rules of the committee were amended with some minor changes and now read as set forth in Appendix F of this report.

#### Legislation Sponsored

During the 1969 legislative session, the first Legislative Audit Committee sponsored several bills that became law for the improvement of state fiscal control and operations. Among these legislative enactments were:

1. Senate Bill No. 6 providing for the reimbursement to the General Fund from agencies financed from earmarked and other non-general fund moneys of the cost of services provided these agencies by the state central control agencies.
2. Senate Bill No. 32 which eliminated the requirement for the state auditor to maintain duplicative records of those maintained by the state controller.
3. Senate Bill No. 33 which established a state central payroll system at a cost level substantially below the previous decentralized system and with substantially increased accuracy, efficiency, and available centralized information as to the state's personal services cost.
4. House Joint Resolution No. 9 which establishes the legislature's intent that the state adopt the generally accepted modified accrual basis of accounting as soon as practicable and directing the state controller to submit any statutory changes needed to accomplish this to the 1971 Legislative Assembly.
5. Senate Bill No. 143 establishing uniform reporting requirements of the financial transactions of state agencies and consolidation by the state controller into an annual financial report for the state.
6. House Bill No. 428 clarifying the purpose for which agency contingent revolving advances may be used.

The legislative auditor's reports issued during 1969 and 1970 included recommendations for statutory changes. The Legislative Audit Committee plans to introduce legislation if needed legislation is not introduced by other legislators at the request of the applicable state agency personnel.

#### AUDIT POLICY

##### General

As noted in the first biennial report of the legislative auditor, the Legislative Auditor's Office is similar in many respects to an independent firm of certified public accountants with a primary difference being that we have only one client - the Montana State Legislature. In that report there was considerable discussion on generally accepted auditing standards within the public accounting profession to which we adhere and generally



accepted governmental accounting principles which are applicable to governmental entities such as the State of Montana.

The state controller has indicated in his replies to our audit reports and presentations to the Legislative Audit Committee that a statewide accounting system is currently being developed that will encompass the accounting principles promulgated by the National Committee on Governmental Accounting. Because of this and other factors discussed below, our audit emphasis will gradually shift to stress performance evaluations of functional areas of state operations as opposed to the more traditional examination of financial records.

#### Performance Auditing

As pointed out early in this report in a quotation from the Legislative Audit Act, the legislative audit function was established in order that the Legislative Assembly "may be assured that its directives have been faithfully carried out." The objectives of audits conducted by the legislative auditor as established in the Legislative Audit Act are also cited earlier in the report, but we believe they should be repeated here. They are "to determine whether:

- (1) The agency is carrying out only those activities or programs authorized by the Legislative Assembly and is conducting them efficiently and effectively.
- (2) Expenditures are made only in furtherance of authorized activities and in accordance with the requirements of applicable laws and regulations.
- (3) The agency collects and accounts properly for all revenues and receipts arising from its activities.
- (4) The assets of the agency or in its custody are adequately safeguarded and controlled and utilized in an efficient manner.
- (5) Reports and financial statements by the agency to the Governor, the Legislative Assembly, and central control agencies disclose fully the nature and scope of the activities conducted, and provide a proper basis for evaluating the agency's operations."

In order to accomplish these objectives, it has been the legislative auditor's policy from the outset of the office's operation, as endorsed by the Legislative Audit Committee, to make a comprehensive audit of the agency being audited as opposed to mere examination of financial records. Such an audit involves, in addition to examination of records, a thorough review of the laws applicable to the agency and a comparison of the agency's activities with these laws; an evaluation of the system of internal control within the agency; an evaluation of the quantity and quality of information available regarding the agency's activities; and to the extent standards of measurement exist and time allows, a more penetrating evaluation as to the efficiency and effectiveness of the agency's operations than normally results from an audit effort.

Until the present biennium, no major effort had been made to develop an adequate statewide accounting system to provide comprehensive, comparable, and timely information, and to establish administrative guidelines for uniform application of state policies and laws where applicable. The lack of such a uniform system has caused the need for more of our audit effort to be placed on examining financial records and procedures than would have otherwise been necessary. However, as indicated above, a system is now being developed, the implementation of which should result in our audit effort being directed more in the area of performance evaluations.

#### Reporting Practices

The Legislative Audit Committee has adopted the following steps to be followed by the legislative auditor and the committee in reporting upon the results of each agency audit.

#### Legislative Auditor

1. Perform the audit.
2. Discuss the findings and recommendations with appropriate administrative officials.

3. Prepare the report and address it to the Legislative Audit Committee.
4. Send a copy of the report to each member of the committee.

#### Legislative Audit Committee

1. Discuss the report at the next committee meeting.
2. Release the report to the agency with a request to the head of the agency that he reply to the recommendations indicating what action he has taken or intends to take thereon. The agency head is also invited to attend the committee's next meeting if he wishes to discuss any phase of the report or his reply with the committee.

Once an agency has been audited, the legislative auditor will, at the time of the next audit of the agency, follow up on the recommendations to determine what action has been taken and reevaluate any recommendations with which the agency might not agree.

By statute, reports of the legislative auditor are distributed to the agency audited, the state controller, and the Legislative Council in addition to the members of the Legislative Audit Committee. Copies are also provided the governor and attorney general for any action they believe appropriate. The committee, at its meeting on November 10, 1969, concluded that it is most important that the leadership of both houses of the legislature and members of the Senate Finance and Claims Committee and House Appropriations Committee be kept informed of the major findings and recommendations of the legislative auditor. Accordingly, copies of the more significant audit reports of the legislative auditor are forwarded to these legislative members. Copies of the reports are available to any member of the Legislative Assembly upon request.

#### Staff Recruitment and Training

As pointed out in the legislative auditor's first biennial report, the effectiveness of Montana's legislative audit function as envisioned in its creating act, depends to a very large extent upon the quality of personnel

comprising the legislative auditor's staff. The following minimum qualifications have been adopted for a position on the legislative audit staff.

A bachelor's degree or higher, with a major in accounting or an allied field from a recognized college or university.  
A candidate without a bachelor's degree may be accepted if he has demonstrated by previous auditing experience that he is qualified for a staff position;

The ability to work with others on a professional plane;

A high degree of personal integrity; and

An unusual amount of curiosity, industry, perserverance, and resourcefulness.

In addition to these basic requirements, staff accountants are encouraged to take and pass the certified public accountant examination.

#### ACTIVITIES OF THE LEGISLATIVE AUDITOR

##### General

Since the distribution of the first biennial report of the legislative auditor during the first week of the 1969 legislative session, the office has expanded both in scope of activity and size to fulfill the prescribed purpose of the office.

The basic function of the office is to perform audits of state agency activities. However, the office was in existence during a legislative session for the first time during January-March 1969. During this time the office provided assistance to the legislature as specified in the Legislative Audit Act. Seventeen specific requests for financial analyses and related information were formally answered in addition to several instances where information was informally provided.

Subsequent to the 1969 session, the office launched a recruiting program to increase the capability of the office to the operating level established by the 1969 Legislative Assembly. As a result, ten professional accountants

were added to the staff. The development and composition of the present staff is discussed in the next section of this report.

In accordance with the directives of the Legislative Audit Committee, our audit emphasis was placed on auditing several of the larger state agencies collecting or maintaining custody of most of the state's revenue (State Board of Equalization, Liquor Control Board, Office of the State Treasurer, and Department of State Lands and Investments) and those making substantial expenditures from these and other revenues (the three largest university units, Boulder River School and Hospital, Industrial Accident Board, State Purchasing Division, and Water Resources Board).

An unusually large amount of staff time was expended in the audit of the Liquor Control Board because of unusual problems encountered. The board's system had not been updated to adequately incorporate modern merchandising, accounting, and other administrative practices even though the agency is collecting nearly \$30,000,000 per year from sales and taxes. In addition, certain legal questions arose which in connection therewith, we provided the attorney general with all pertinent information pursuant to Section 2308(3) of the Legislative Audit Act.

Some of the major recommendations contained in these audit reports are discussed in a subsequent section of this report.

As was the case during the first 1-1/2 years of existence of the office, the legislative auditor and deputy legislative auditor have spent a considerable amount of time consulting with state officials discussing statewide accounting needs and supplying advice regarding fiscal matters in reply to requests from agency personnel. In addition, some financial information has been supplied individual legislators at their request in accordance with the rules of the Legislative Audit Committee.

The legislative auditor is an active member of a group of state legislative auditors comprising a section of the National Legislative Conference. This group recently established a more effective organization, one feature of which is the exchange of audit reports and other pertinent information. This participation has been helpful in that it facilitates comparisons of the other states' various programs as well as their audit activities with Montana's.

#### Audit Staff

For the 1967-69 biennium, during which the legislative audit function was commenced in Montana, the Legislative Assembly appropriated an amount to merely launch the program. The legislative auditor was appointed in July 1967, the deputy legislative auditor in April 1968, and one staff accountant was employed in June 1968.

The 1969 legislature expanded the capability of the program to obtain more comprehensive coverage for the 1969-71 biennium by increasing the office's appropriation to an operating level. As a result, ten additional staff members were added during the period August 1969 - February 1970. It was determined that this initial staff complement should be comprised of members with sufficient experience in the field of auditing to enable them to assume their duties for the State of Montana with a minimum of additional training. Over 100 applications for employment were received, primarily from Montana residents or former residents who wished to return to Montana. The new members were recruited on the basis of the experience requirement and other minimum qualifications listed above. As a result, we believe our audit staff is a very capable group.

The members' backgrounds include a variety of experience, such as work for the U. S. General Accounting Office (Congress' legislative audit function), Certified Public Accounting firms, and other federal agencies

such as the Defense Contract Audit Agency and the Internal Revenue Service.

Nine of the thirteen professional accountants in the office were reared in Montana. All are college graduates, most from Montana universities. Five are Certified Public Accountants or have passed the C.P.A. examination and are awaiting certification. The average age of the staff members is 30.

A complete list of the office's personnel appears in Appendix A.

#### Audits of State Agencies

Appendix B of this report presents a list of the audit reports issued by the Office of the Legislative Auditor during 1969 and 1970. Appendix D lists a summary of the more significant recommendations contained in each of the audit reports issued. Appendix C lists the audit assignments in progress as of December 31, 1970.

Recommendations of major importance contained in our audit reports issued during 1969 and 1970 are amplified in the following discussion:

#### State Board of Equalization

1. *Develop more meaningful management information* - The board is the major revenue collection agency for the state and, as such, it has a vast amount of financial data within its records. Each biennium the legislature convenes for sixty days and must make very important decisions about the state's financial future, quite often without having sufficient information. With the data in its records, the board should be able to develop much more useful information than is currently available. From this information, the board could make recommendations and the legislature could make decisions based upon the information.
2. *Several recommendations relating to strengthening the board's tax collection procedures* - The board has no effective field audit program other than for its motor fuel tax administration program where the field audit effort returns its cost many times. A similar field audit function in other areas of the board's tax administration function, such as income tax and corporation license tax, has proven to be well worth the effort in other states. Such a field audit program implemented on a test basis with proper monitoring of results and the implementation of other related recommendations could result in a substantial increase in revenue collections for the state.

#### Liquor Control Board

1. *Several recommendations relating to merchandise purchasing practices and inventory levels* - The board's purchasing practices included several features that were costly to the



state. One major factor was that the merchandise inventory level was being maintained at a level substantially above that needed to meet the buying public's demands. Our analysis indicated that approximately \$800,000 was tied up in excess inventory. Reduction of the inventory level would free this money for distribution to the General Fund.

2. *Discontinue use of daily sales reports, spread sheets, and perpetual inventory records currently in use in state liquor stores* - The implementation of this and other recommendations relating to state liquor store operations will result in a substantial reduction in cost of sales. It was conservatively estimated that implementation of this single recommendation should result in a cost reduction of \$100,000 annually in sales reporting and inventory record maintenance costs.

#### Office of the State Treasurer

1. *Devise a system of cash flow analysis for the state to identify cash available for investment* - Our audit report on the State Treasurer's Office points out that over the last three years, the month-end balance of state treasury moneys in non-interest bearing demand deposits has averaged over \$25,000,000, without any adequate evaluation of what the level of demand deposits should be. Basically, the balance in demand deposits should be maintained at a level to pay state warrants issued and compensate banks for services that might be provided. We believe that this large amount of state money being left idle and several other related findings pointed out in the audit report illustrate the urgent need for the establishment of an effective cash management program for state moneys.
2. *Establish a more systematic means of identifying, recording, and collecting abandoned property* - We found that the process by which abandoned property is initially identified is basically uncontrolled and is not reliable; the effort made to collect abandoned property once it is identified is often non-existent; and as a result, the state is not collecting revenue properly due of an unknown, but potentially substantial, amount. We noted numerous instances where items such as savings bonds, certificates of deposit, common stock, and even cash, have been reported as abandoned but not collected by the state. In our opinion, a properly managed abandoned property program could result in a substantial increase in state revenue.

#### Department of State Lands and Investments

*In conjunction with the State Department of Administration, design and implement a centralized investment function headed by an expert in the investment field* - It was pointed out in the land board report that although state statutes provide for the investment of available state moneys by the State Board of Land Commissioners, individual state agencies are making their own investments for the most part either with the "rubber stamp"



approval of the land board or without their approval in any form. For example, during 1968-69, known state investments of \$149,000,000 were made by various state agencies, of which only \$37,000,000, or 25%, was formally approved by the land board. The unified investments plan provided for by law was enacted based upon a report of the 1953 Commission on Reorganization of State government, in which the commission expressed the hope that the plan would eliminate duplication, improve administration and economy, provide centralized investment services, and maximize investment of state moneys. Under present circumstances, we do not believe these expressed objectives are being obtained.

#### Evaluation of State Purchasing Function

*Establish uniform standards and specifications for commonly purchased products and discontinue use of brand names unless specifically justified* - The development of uniform standards and specifications for commonly purchased products is a basic feature of an effective purchasing function where any substantial amount of such purchases are made. We noted in our evaluation of the Purchasing Division of the State Department of Administration, that with the exception of a few products, uniform standards and specifications for products purchased by state agencies have not been established. In our evaluation report, we discuss several examples and point out where cost savings should result by the implementation of our recommendations both in terms of the time required by the present purchasing practices and the purchase price. We also point out in the report that in most instances, the state would benefit by considering brand names at the time of establishing the standards and specifications instead of the requesting agency designating the item by brand name on subsequent requisitions for purchase.

#### Boulder River School and Hospital

*The state controller submit to the Legislative Assembly a plan for controlling and accounting for construction appropriations* - In most reports issued by this office through the time of issuance of the Boulder report, on agencies that had construction appropriations, we reported discrepancies in the handling of these appropriations. The reported exceptions included inadequate accounting procedures, non-compliance with budgetary provisions, conflicts with statutory requirements, inconsistencies in the handling of amounts transferred between projects, etc.

Based upon our recommendation, the state controller reviewed major aspects involved in the capital construction process, i.e., accounting, budgetary, and legal, and established more effective controls over state building construction projects.

These controls, which are set forth in the controller's Management Memo No. 70-17, became effective April 1, 1970, and should significantly improve the utilization of current and future construction appropriations.

#### University Units

1. *Transfer bank balances to appropriate funds in the state treasury and deposit future receipts therein promptly upon their receipt* - In 1963, the Legislative Assembly passed the Treasury Fund Structure Act (Title 79, Chapter 4) with the expressed purpose . . . "to simplify the accounting system and treasury fund structure of the state, to make possible the full utilization of modern accounting methods, to provide the Legislative Assembly with a greater measure of control over public moneys, and to enable the financial records of the state to accurately reflect governmental costs and revenues." To accomplish this purpose, the receipts and disbursements of all state agencies must pass through the state treasury.

It has long been the practice of the university units to retain locally most moneys received as opposed to depositing the collections in the state treasury. For example, during the 1969-70 fiscal year, the three largest university units collectively deposited in the state treasury only \$8,000,000 of the nearly \$50,000,000 collected at the units. As a result, over \$40,000,000 was collected and disbursed without being subjected to the accounting, control, and informational features provided by the deposit of these moneys in the state treasury. Most of the \$8,000,000 which was deposited in the state treasury consisted primarily of student fees and these fees were not deposited on a timely basis. There are several statutory provisions requiring the deposit in the state treasury of all collections by state agencies. The deposit of these collections by the university units will be a major move in the direction of fulfilling the expressed purposes of the Treasury Fund Structure Act.

2. *Implement a formal system of documenting the time expended by faculty personnel by the nature of their services* - This recommendation was made for a variety of reasons as outlined in detail in each of our audit reports on the university units. In summary, the need for information as to the time, effort, and performance of the faculty members of the Montana University System, and their related cost by activity, is constantly becoming more apparent. The public needs the information to know what their higher education tax dollars are producing. The Legislative Assembly needs the information in order to have a sound basis for allocating state resources.

The Board of Regents can use the information in establishing sound policies for guidance of the University System. The information could be invaluable to the individual university units' management in administering their units' programs. The national trend is toward developing formal systems of documenting and reporting the effort and performance of university faculty members and relating the information to cost. We believe the Montana University System would find the benefits to be derived would justify the implementation of a formal time reporting system for its academic personnel.

3. *Convert the university units' payroll to the central payroll system* - Based upon a recommendation made in the first audit report of the legislative auditor, the state's central payroll system was established in September 1968. Through this system state employees are paid by the State Auditor's Office from a master list to which adjustments, additions, deletions, etc., are certified by authorized agency heads. Amount withheld from employees' salaries and the state's share of employee benefit costs (retirement contributions, social security contributions, etc.), are paid by warrants from a central payroll revolving account. This system eliminates the need for detail computations and reports at the agency level, increases control, and provides a centralized source of information concerning the personal services costs of the state. The university units are basically the only major state agencies not now on the system.

The central payroll system is now processing the payroll of several large departments, with decentralized locations, such as the Highway Commission, Fish and Game Commission, Liquor Control Board, Highway Patrol, etc. We believe the central payroll system has the capacity to adequately handle the payroll of the university units.

4. *Establish more precise regulations regarding consulting fees, honorariums, etc., earned by university unit personnel* - In our report on Eastern Montana College we noted examples of consulting and other work performed by the college's administrative and faculty personnel that raised a question as to whether the Board of Regents' policy on the subject was being followed. The board's policy reads as follows:

"Any additional activity or employment, professional or otherwise, for which the staff member received personal compensation during the regular appointment . . ., except during periods of emergency . . ., shall be kept at a minimum for the best interests of the individual and institution."

We noted that many of Eastern's faculty members received consulting fees (both from outside and intra-campus sources), honorariums, and other compensation in addition to their

regular salary received from the state. The compensation in most instances was for services performed during the daytime hours of the school week. In other instances it was difficult to determine the times involved in performing the service because of the lack of records. We believe the instances noted illustrate that the payment of extra compensation to the employees, as opposed to reimbursing state appropriated moneys from which their regular salaries are paid, at least raises a question as to the justification for the practice, and that more precise regulations are needed on this subject.

5. *The state controller establish an account in the appropriate treasury fund to receive, hold, and disburse all moneys available for general support operations for each university unit - Section 82-109(6), R.C.M. 1947, provides that expenditures of state agencies shall be applied against available non-general fund moneys before using general fund appropriations. In each of our audit reports on the university units, we pointed out that the unit follows the reverse practice by spending its general fund appropriation first, before utilizing other available moneys, resulting in the full expenditure of their general fund appropriations. The implementation of our recommendation, as outlined in the audit reports, should result in the intent of the law being accomplished.*
6. *Collect administrative cost reimbursements and deposit the collections as revenue to the General Fund to the extent the costs were included in appropriated moneys - At Eastern Montana College, it was noted that the college was subsidizing part of the cost of some of its facilities that are supposed to be self-supporting, such as the college dormitories. Examples of such costs were utility service costs and administrative service costs. In those instances where administrative service costs were reimbursed, the collection was credited to Eastern's appropriations from which the cost had been budgeted and appropriated. This was also the practice at the other university units. This reimbursement to the appropriation instead of deposit as revenue to the General Fund has the effect of supplementing the state appropriation by the amount of the reimbursement. We believe that where expenditures are made from budgeted and appropriated revenues, any reimbursement of those expenditures should be deposited to the General Fund as revenue, not to the appropriation.*
7. *Seek legislation to provide the statutory authority for the waiver or reduction of fees in those circumstances where such waiver or reduction is in the best interests of the state - At the University of Montana, university fees were waived during 1969-70 under 14 different circumstances and*

totalled \$626,000. Montana statutes specifically provide for only 5 circumstances for university fee waivers. The waivers for these 5 totalled \$100,123 for 1969-70. Insofar as we could determine, the privilege of waiving fees under the other 9 circumstances dates far back in time and may be derived from the general statutory authority of the State Board of Education, as expressed throughout Title 75, R.C.M. 1947. In any event, we were unable to identify any specific statutory authority underlying the waiver of fees in these 9 circumstances while the statutory authority is clear in the remaining circumstances. As a result, \$525,877 in fees were waived during 1969-70 under circumstances which are not specifically authorized by law. The most significant of these instances consisted of non-resident summer session fees (\$198,000), non-resident graduate assistants (\$135,850), and non-resident fees in excess of the 2% statutory limitation (\$100,060). While the waiver of these fees may be in the best interest of the state, we believe the decision should be that of the Legislative Assembly since the legislature has established other specific instances when fees may be waived.

8. *Establish a uniform university accounting system which meets management needs and is compatible with the statewide system currently under development* - We noted that the accounting system of each of the university units audited has not been maintained in a manner to adequately provide accurate and timely information on the units' financial affairs. The Montana University System has grown substantially over recent years but sufficient emphasis has not been given to the information system to meet management's needs in administering the units and in reporting to others on their activities. As an example, none of the three units audited had their financial statements for the fiscal year ended June 30, 1970, completed by late November 1970 when we completed our field audit work. We believe increased emphasis by the units on their management information system combined with the implementation of other recommendations contained in our reports should result in a significant increase in the efficiency of the university programs and more informative disclosure as to the results of the programs.

APPENDIX A

OFFICE OF THE LEGISLATIVE AUDITOR  
ROSTER OF EMPLOYEES

	<u>Employed</u>
Legislative Auditor - Morris L. Brusett	July 1967
Deputy Legislative Auditor - G. Dean Reed	April 1968
Audit Supervisors:	
Joseph J. Calnan	December 1969
Laury M. Lewis	September 1969
James J. Murphy	February 1970
Audit Staff:	
Donald E. Bentson	November 1969
D. John Donwen	August 1969
Charles D. Fabatz	September 1969
C. Ronald Smith	September 1969
Rudolph T. Stock	June 1968
A. Wesley Swenson	August 1969
James D. Williams	September 1969
Ralph I. Winkler	February 1970
Office Staff:	
Mrs. Eleanor Eck	June 1970



## APPENDIX B

### OFFICE OF THE LEGISLATIVE AUDITOR REPORTS ISSUED DURING 1969 AND 1970

#### Elected Officials

Office of the State Treasurer, Report on Examination, Calendar Year Ended December 31, 1969 (June 1970) - 111 pages, 100 recommendations.

#### General Government

State Purchasing Function, Evaluation of Selected Aspects as Administered by the State Department of Administration, Purchasing Division (June 1970) - 25 pages, 5 recommendations.

State Board of Equalization, Report on Examination, Fiscal Year Ended June 30, 1968 (July 1969) - 50 pages, 50 recommendations.

State Board of Equalization, Report on Compliance Procedures and Controls, Fiscal Year Ended June 30, 1968 (July 1969) - 17 pages, 16 recommendations.

Department of State Lands and Investments, Report on Examination, Fiscal Year Ended June 30, 1969 (June 1970) - 64 pages, 57 recommendations.

Liquor Control Board, Report on Examination, Fiscal Year Ended June 30, 1969 (February 1970) - 157 pages, 170 recommendations.

State Economic Opportunity Office, Reports on Examination, Grant Fiscal Years Ended January 31,:

1969 (April 1969) - 11 pages, 4 recommendations.

1970 (June 1970) - 9 pages, 2 recommendations.

#### Agriculture and Natural Resources

Grass Conservation Commission, Report on Examination, Fiscal Year Ended June 30, 1969 (October 1969) - 17 pages, 14 recommendations.

#### Health and Welfare

Industrial Accident Board, Report on Examination, Fiscal Year Ended June 30, 1969 (September 1970) - 54 pages, 33 recommendations.

#### Commerce

Aeronautics Commission, Report on Examination, Fiscal Year Ended June 30, 1969 (May 1970) - 28 pages, 21 recommendations.

#### Licensing and Examining

Abstracters Board of Examiners, Report on Examination, Fiscal Year Ended June 30, 1969 (October 1969) - 14 pages, 6 recommendations.

APPENDIX B (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
REPORTS ISSUED DURING 1969 AND 1970

Licensing and Examining (Continued)

Athletic Commission, Report on Examination, Two Fiscal Years Ended June 30, 1970 (July 1970) - 13 pages, 6 recommendations.

Board of Chiropractic Examiners, Report on Examination, Fiscal Year Ended June 30, 1969 (October 1969) - 11 pages, 3 recommendations.

Board of Plumbing Examiners, Report on Examination, Fiscal Year Ended June 30, 1969 (October 1969) - 13 pages, 7 recommendations.

Board of Registration for Professional Engineers and Land Surveyors, Report on Examination, Fiscal Year Ended June 30, 1969 (July 1969) - 17 pages, 12 recommendations.

Water Well Contractors Examining Board, Report on Examination, Fiscal Year Ended June 30, 1969 (September 1969) - 12 pages, 4 recommendations.

Board of Certification for Water and Waste Water Operators, Report on Examination, Fiscal Year Ended June 30, 1969 (September 1969) - 15 pages, 8 recommendations.

Public Institutions

Boulder River School and Hospital, Report on Examination, Fiscal Year Ended June 30, 1969 (October 1969) - 51 pages, 45 recommendations.

University System

Eastern Montana College, Report on Audit, Fiscal Year Ended June 30, 1970 (December 1970) - 62 pages, 51 recommendations.

Montana State University, Report on Audit, Fiscal Year Ended June 30, 1970 (December 1970) - 77 pages, 54 recommendations.

University of Montana, Report on Audit, Fiscal Year Ended June 30, 1970 (December 1970) - 130 pages, 83 recommendations.

Legislative

Legislative Council, Report on Examination, Biennium Ended June 30, 1969 March 1970) - 15 pages, 11 recommendations.



APPENDIX C

OFFICE OF THE LEGISLATIVE AUDITOR  
AUDIT ASSIGNMENTS IN PROGRESS AT DECEMBER 31, 1970

General Government

Audit of the Office of the Coordinator of Indian Affairs, Fiscal Year Ended June 30, 1970.

Evaluation of Progress Made in Implementing Recommendations Made in February 1970 Audit Report on the Liquor Control Board.

Agriculture and Natural Resources

Audit of the Water Resources Board, Fiscal Year Ended June 30, 1970.

## APPENDIX D

### OFFICE OF THE LEGISLATIVE AUDITOR SUMMARY OF MAJOR RECOMMENDATIONS MADE DURING 1969 AND 1970

#### OFFICE OF THE STATE TREASURER

1. Establish a general ledger and double entry system.
2. Clarify reporting requirements and prepare annual financial statements.
3. Assign duties and responsibilities in writing and establish written policies and procedures.
4. Correct weaknesses in physical security system.
5. Reduce the amount of time and money involved in the float.
6. The state controller identify and abolish agency checking accounts outside of the state treasury system.
7. Revise the warrant disbursement system to provide for direct charging of warrants to the state bank accounts.
8. The state controller establish clearance accounts in the state treasury in place of agency suspense accounts.
9. Develop a systematic means of analyzing treasury cash in demand deposits.
10. Analyze the banking services performed for the state by banks and establish a formula to determine realistic compensating balances.
11. Obtain periodic information relative to CD's from the Federal Reserve Bank and negotiate with banks for maximum interest rates on CD's.
12. Evaluate present investment in CD's to cycle or schedule investment in CD's.
13. Seek legal clarification of laws relating to investment in general fund warrants and request necessary legislation.
14. Utilize a systematic procedure to determine the extent to which surplus treasury cash is available for investment.
15. Cooperate with other agencies to correlate distribution of school funds with actual need.
16. Cooperate with state controller to establish an accounting and reporting system for all state investments.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

OFFICE OF THE STATE TREASURER (Continued)

17. Devise a system of cash flow analysis for the state to identify cash available for investment.
18. Cooperate to establish a central investment authority.
19. Establish a general ledger and subsidiary ledger control over all fixed assets, record fixed asset additions and deletions on a timely basis, and take annual physical inventories of fixed assets and adjust the records accordingly.
20. Determine the feasibility of using CD's and escrow accounts as contractor deposits.
21. Establish a more systematic means of identifying, recording, and collecting abandoned property.
22. Review the unclaimed property account balance and make periodic transfers of moneys.
23. Collaborate with the attorney general to resolve respective responsibilities under escheat laws.
24. Establish accounting control over escheated property, establish a systematic procedure to analyze escheated estates accounts, and transfer undistributed escheated estates funds pursuant to law.
25. Refer all proposed payments of escheat money to the inheritance tax division for assessment of appropriate inheritance taxes.
26. The state controller establish centralized management and control over bonded indebtedness.
27. Select fiscal agents on the basis of costs and benefits.
28. Determine feasibility of using a uniform bond indenture and make increasing use of registered-type bonds.
29. Maintain time and attendance records, designate a payroll clerk, and maintain cumulative leave records.
30. Allocate the cost of activities to the benefitting appropriation.
31. The state controller take action necessary to assure that unexpended appropriation balances properly revert.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

STATE PURCHASING FUNCTION

1. Establish uniform standards and specifications for commonly purchased products, discontinue use of brand names unless justified, prepare pre-printed requisition forms, and require written justification for deviations from established standards.
2. Automate purchasing procedures for meat contracts and other procurements once the meat procurement procedures are operating effectively.
3. Establish written policy requiring agencies to justify in writing requisitions submitted between regularly scheduled dates and return requisitions not properly justified.
4. Consolidate annual canned goods awards and review other product purchases to identify further opportunities to consolidate awards for the same products.
5. Explicitly state on the request for quotation the method to be used to award contracts.

STATE BOARD OF EQUALIZATION

1. Establish a general ledger and double entry system, and prepare annual financial statements.
2. Provide for an accountant to supervise accounting system.
3. Develop more meaningful management information.
4. The state controller account for suspense accounts in central accounting system.
5. Conduct inventory of accounts receivable, record receivables in general ledger and appropriate registers, and reconcile the accounts receivable control account to the subsidiary accounts.
6. Establish general ledger account for guarantee deposits.
7. Inventory and identify all equipment, establish equipment control account and periodically reconcile balance to subsidiary records, record additions and deletions on a current basis, and take physical inventories of equipment annually.
8. Revise travel claim procedures to insure adherence to applicable statutes.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

STATE BOARD OF EQUALIZATION (Continued)

9. Assign costs to special appropriations based on sound cost allocation plan.
10. The state controller require that statements of revenue be prepared and reconciled by the collecting state agency.
11. Assess penalties and interest prescribed by law if taxes are not remitted timely.
12. The state treasurer discontinue accounting for inheritance taxes and the board assume the accounting duties.
13. Require counties to remit inheritance tax advances monthly.
14. Consider transferring the administration of the oil production license taxes to the Oil and Gas Conservation Commission.
15. Consider expanding field audit program,

STATE BOARD OF EQUALIZATION - COMPLIANCE REPORT

1. Establish better standards for reference in selecting returns for examination.
2. Use computer for identifying returns for further audit.
3. Initiate a field audit program on a test basis and monitor results.
4. Consider implementing a post-refund audit on a test basis and evaluate results.
5. Compare withholding statements submitted by employer and employee.
6. Compare current and prior years' filings by computer application.
7. Establish control over exception cards resulting from comparing Montana and federal filings.
8. Reconcile income tax collections and assessments for applicable periods on a timely basis.
9. Provide for estimated tax enforcement procedures and establish penalties and interest assessment basis.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

STATE BOARD OF EQUALIZATION - COMPLIANCE REPORT (Continued)

10. Consider reducing minimum income level for determining whether estimated tax payments should be made.
11. Evaluate effect of requiring monthly remittances of withheld taxes.
12. Consider establishing by computer application a "total accounts receivable function" accounting system.
13. Initiate on a test basis a corporation license tax field audit program and monitor results.
14. Regulate by statute removal of contents from safety deposit boxes held in the name of resident decedents.
15. Revise statutes to permit greater utilization of federal estate tax field audit program.

DEPARTMENT OF STATE LANDS AND INVESTMENTS

1. Establish a general ledger utilizing the double entry system, post monthly, and prepare annual financial statements.
2. Designate central point for mail opening, record cash immediately upon receipt, and deposit cash receipts intact on a timely basis.
3. Establish written policy with respect to issuance of certificates of purchase.
4. Assess and collect delinquent payment penalties on certificates of purchase.
5. Enforce statute provisions relating to cancellations of delinquent certificates of purchase and establish written policy with respect to reinstatement of cancelled certificates of purchase, including consideration of assessing a reinstatement fee.
6. In conjunction with the Department of Administration, design and implement a centralized investment function headed by an expert in the investment field.
7. Revise existing regulations to enable investment of available moneys on a timely basis.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

DEPARTMENT OF STATE LANDS AND INVESTMENTS (Continued)

8. Inventory and identify all equipment, establish fixed asset values, control accounts, and subsidiary records, and take physical inventories of equipment annually and adjust records accordingly.
9. The state controller establish a state-wide records management program.
10. Establish policy and procedure necessary for control of resource development projects.
11. Establish program cost accounting records for resource development division.
12. Design and use a uniform form for timekeeping, require employees' signatures and supervisors' approvals, and formalize payroll duties.
13. Assign costs to appropriations on a sound cost allocation basis.
14. The state controller prescribe guidelines and criteria for the proper recording of fees and refunds.
15. Establish a policy governing payment of surface damages to state lands to insure state's interest.
16. Seek to clarify and establish the proper disposition of revenues received from use of state lands.
17. Deposit coal lease revenue to funds prescribed by law.
18. Require payment of coal lease revenue on timely basis as prescribed by law and consider imposing penalty fee for late payments.
19. Design and use forms to show the basis used to determine the rental and sales value of state lands.
20. Concentrate effort to select indemnity in-lieu lands.

LIQUOR CONTROL BOARD

1. Make all changes to purchase orders prior to administrator's approval.
2. Evaluate merchandise purchase needs on continuing basis.
3. Consider merchandise in stores in determining quantity of merchandise purchases.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

LIQUOR CONTROL BOARD (Continued)

4. Base merchandise purchases on needs as opposed to distiller representatives' attendance at board meetings.
5. Eliminate purchase of merchandise for which many months' supply is already in inventory.
6. Evaluate merit of implementing "IMPACT" program.
7. Consider having store vendors order merchandise upon implementation of "IMPACT" program.
8. Establish sales quota for each type of liquor listed, determine presently listed liquors not meeting sales quotas, and delist liquors not meeting sales quotas.
9. Establish written criteria for evaluating liquors proposed for listing in future, adopt formal system for evaluating proposed listings including documentation, and document reasons for listing or not listing proposed liquor.
10. Test salability of new listings on trial basis in stores.
11. Establish criteria for delisting and authorize staff to evaluate and delist based upon established criteria.
12. Determine inventory stock levels needed to maintain adequate supply, adjust purchases to bring inventories down to established stock levels, and reprogram computer to determine when more purchases need be made.
13. Establish written procedures for use of applications for credit.
14. Limit use of credit applications to merchandise actually damaged, defective, or otherwise truly unsalable.
15. Establish written procedures for handling and control of liquor samples.
16. Establish and maintain a formal written record as to receipt and disposition of liquor samples.
17. Warehouse in the central warehouse all liquor to be sold through state liquor stores.



APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

LIQUOR CONTROL BOARD (Continued)

18. Obtain necessary authority and examine records and premises of domestic liquor production businesses.
19. Establish policy for delivery of defective merchandise to warehouse.
20. Reconcile returned defective merchandise to credit applications.
21. Notify distillers that defective merchandise will be retained for limited time before being destroyed.
22. Segregate duties of accounting for billing, and physical control of defective merchandise.
23. Discontinue use of daily sales reports, spread sheets, and perpetual inventory records currently used in state liquor stores.
24. Adopt retail inventory method of valuing merchandise in state stores and apply "forced sales" technique of determining sales.
25. Consider establishing store hours more convenient to the buying public.
26. Include the number of cases and units handled as a major consideration when determining personnel requirements of state stores.
27. Evaluate feasibility of self-insurance for merchandise.
28. Deposit stores' daily sales receipts intact and daily, when warranted.
29. Discontinue the personal borrowing of store sales proceeds.
30. Maintain records of all sales of board property.
31. Establish an effective store audit function centralized in Helena.
32. Require lease agreements on all state stores.
33. Document basis for renegotiated leases, rental rates, and reasons for store relocations.
34. Reorganize into a more functional and realistic structure and delegate responsibility of hiring and discharging employees to administrator.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

LIQUOR CONTROL BOARD (Continued)

35. Establish written performance standards for employee duties and clearly define duties and responsibilities of employees.
36. Revise employee time reporting system.
37. Utilize central payroll system.
38. Limit board members' compensation to prescribed limits.
39. Discontinue making severance payments to terminating employees.
40. Limit out-of-state travel expenses to amounts authorized by law.
41. Limit travel expense reimbursements to allowable expenses not otherwise reimbursed.
42. Identify basis for travel expense payments.
43. Amend statutes to require direct tax payments by out-of-state breweries.
44. Require processing fee for new applicants for beer and liquor licenses.
45. Transfer approximate \$90,000 contingent revolving account balance to general fund.
46. Establish systematic method of determining profits and transfer to general fund on regular basis.
47. Inventory, assign identification numbers to, and tag all fixed assets.
48. Adjust accounting records of fixed assets to agree with physical inventory.
49. Limit contract awards to amount appropriated by legislature.
50. Evaluate advantages of maintaining fleet operation of automobiles.
51. Restructure program and accounting system to properly account for operating expenses.
52. State controller examine feasibility of consolidating claims among state agencies for services originating from common source.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

STATE ECONOMIC OPPORTUNITY OFFICE

Grant Fiscal Year Ended January 31, 1969

1. Establish and maintain on a current basis a general ledger utilizing the double entry system.
2. Prepare and file with the federal government amended corrected reports for the grant periods ended April 30, 1967, and January 31, 1968.
3. Make correcting entries for grant fiscal year ended January 31, 1969, so an accurate final report can be filed with the federal government.

Grant Fiscal Year Ended January 31, 1970

1. Maintain formal employee attendance and leave records for all employees.
2. Establish and maintain adequate supporting documentation for in-kind services.

GRASS CONSERVATION COMMISSION

1. Establish and maintain currently a general ledger utilizing the double entry system and prepare annual financial statements.
2. Deposit cash collections on a timely basis after their receipt.
3. Establish a cutoff date for payment of fees and require the grazing districts to pay the fees on time.
4. Determine the amount due the state general fund, initiate the necessary procedures to transfer this amount to the general fund, and deposit 1 percent of future collections to the general fund.
5. Utilize means established by law to obtain required spending authority.
6. The state controller refuse to process claims for payment that do not contain sufficient supporting documentation.

INDUSTRIAL ACCIDENT BOARD

1. Establish and maintain general ledger accounts for each of the board's treasury fund accounts.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

INDUSTRIAL ACCIDENT BOARD (Continued)

2. Document and record year-end adjusting entries in the general ledger.
3. Deposit receipts promptly on a timely basis.
4. Study problems with state controller and pay all board claims through the state claim-warrant system.
5. Cooperate with the state controller, state treasurer, and land board in establishing a central investment authority.
6. Establish general ledger control accounts for fixed assets, adjust records to agree with physical inventory, record additions and deletions on a current basis, document and approve dispositions of property, and include a fixed asset statement with the annual financial statements.
7. Revise employer's report form to simplify instructions and reduce cost.
8. Determine reason for apparent overpayments before making refunds of employer premium payments.
9. Document reasons for payment of benefits and the manner of computation of amounts.
10. Establish and maintain an inventory control of Plans I and II claims.
11. Record all amounts received in subrogation actions, establish and maintain control records for claims subject to possible subrogation, and seek clarification of statutory provisions relating to payment of expenses in subrogation actions.
12. Comply with provisions of Section 92-116, R.C.M. 1947, or request statutory amendment if the law is not workable.
13. Limit expenditures to appropriated amounts.
14. The state controller prescribe standardized procedures for computation of terminating state employees' pay.
15. Establish written regulations for operation of the silicosis benefit program.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

INDUSTRIAL ACCIDENT BOARD (Continued)

16. Reevaluate boiler inspection program and present a program to the legislature for implementation of an adequate boiler inspection program.

AERONAUTICS COMMISSION

1. Establish a general ledger on a fund basis and prepare annual financial statements.
2. Take physical inventory of fixed assets, establish a value for each item, establish general ledger control accounts and subsidiary ledger for fixed assets, record future transactions on a current basis, and include a statement of changes in fixed assets with the annual financial statements.
3. Request detailed statement of aviation fuel tax collections and accumulate data for analysis and planning.
4. The state controller prescribe procedures relating to the expenditure of state funds pending federal reimbursement.
5. Record in writing justification and authorization for payment for state airport management services beyond contract limitations.
6. Require filing of financial statements from lessees when rental payments are based upon operations, reserve the right in lease agreements to audit lessees' records, and periodically audit lessees' records.
7. Reevaluate statutes, regulations, and procedures relating to regulation, licensing, and enforcement program or propose required legislation to enable the commission to properly perform its regulatory duties.
8. Maintain records of gasoline and oil used by each aircraft, adjust current billing rates to make them commensurate with actual costs, and periodically adjust the billing rates in the future to keep them commensurate with costs.
9. The Governor's Office include in future appropriation requests sufficient funds to pay for air transportation furnished that office by the commission and reimburse the commission for such costs in the future.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

AERONAUTICS COMMISSION (Continued)

10. Review existing aeronautical laws for obsolescence, request legislation to update the statutes, and establish a program for review of aeronautical laws on a regular and continuing basis.

ABSTRACTERS BOARD OF EXAMINERS

1. Establish and maintain currently a general ledger utilizing the double entry system and prepare annual financial statements.
2. Record cash when it is received and deposit it intact on a timely basis.
3. Require payment of all fees prescribed by law.
4. Submit claims for disbursement in accordance with established procedures.

ATHLETIC COMMISSION

1. Establish and maintain a general ledger utilizing the double entry system and prepare annual financial statements.
2. Establish and maintain a permanent record of all licenses issued.
3. Institute procedures to insure that all participants and officials are licensed and fees collected.
4. Adopt written procedures outlining the means by which gross receipts are determined and the duties of the inspector.
5. Request legal clarification on whether taxes are to be withheld on gross receipts obtained from admission tickets at training and sparring exercises.

BOARD OF CHIROPRACTIC EXAMINERS

1. Establish and maintain currently a general ledger utilizing the double entry system and prepare year-end financial statements.
2. Record cash when it is received and deposit it intact on a timely basis.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

BOARD OF PLUMBING EXAMINERS

1. Establish and maintain currently a general ledger utilizing the double entry system and prepare annual financial statements.
2. Record cash when it is received and deposit it intact on a regularly scheduled basis.
3. Maintain attendance records and records showing time off earned, taken, and balance for employees' vacation, sick leave, and overtime.

BOARD OF REGISTRATION FOR PROFESSIONAL ENGINEERS AND LAND SURVEYORS

1. Establish a general ledger, utilize the double entry system, and prepare annual financial statements.
2. Record all cash when received and deposit intact on a timely basis.
3. Maintain an applications register.
4. Review legal provisions relating to travel expense reimbursements to insure that claims are prepared and submitted for payment in accordance with statute provisions.
5. Maintain attendance records and records showing time off earned, taken, and balance for employees' vacation, sick leave, and overtime.
6. The state controller direct agencies to utilize means established by law to obtain required spending authority.

WATER WELL CONTRACTORS EXAMINING BOARD

1. Establish a general ledger posted on a monthly basis utilizing the double entry system and prepare year-end financial statements.
2. Record cash when received and deposit intact on a regularly scheduled basis.
3. Maintain and retain formal employee attendance records.
4. The state controller prescribe directives for year-end reconciliations.



APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

BOARD OF CERTIFICATION FOR WATER AND WASTE WATER OPERATORS

1. Review certification procedures and implement procedures to insure more comprehensive certification coverage
2. Establish and maintain currently a general ledger utilizing the double entry system and prepare year-end financial statements.
3. Record cash when it is received and deposit intact on a regularly scheduled basis.

BOULDER RIVER SCHOOL AND HOSPITAL

1. Prepare financial statements on a fund basis.
2. The state controller prescribe budgetary and accounting requirements for federal reimbursable programs.
3. The state controller consider performing all budgetary accounting for the state institutions.
4. Utilize special milk program funds for payment of milk supplied other state institutions.
5. Discontinue furnishing employees food, meat, supplies, and farm products and furnish housing and meals as required at realistic prices.
6. The department of institutions and the state controller establish uniform procedures for all institutions for controlling stores inventories.
7. The department of institutions consider implementing M.S.U. college of agriculture recommendations regarding the institutional farm-ranch complex.
8. Account for specific gifts separately.
9. Formalize part-time professional employment agreements.
10. Show actual "full-time equivalency" in budget requests.
11. Transfer funds to projects where expenditures should be applied.



APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

BOULDER RIVER SCHOOL AND HOSPITAL (Continued)

12. Obtain written approval for inter-project transfer of funds and state controller refuse to process unrelated claims against specific projects.
13. The state controller require valid obligation prior to encumbering funds, disencumber current unwarranted encumbrances, and establish year-end encumbrance review activity.
14. The state controller submit to next legislative assembly a plan for controlling and accounting for construction appropriations.
15. The department of institutions review residents' per diem assessments.
16. Require proper authorizations for charges to residents' accounts.
17. Establish better control over billings for insurance covering residents.
18. The state controller account separately for individual programs within federal and private revenue fund.
19. The state controller require proper authorizations for inter-program fund transfers and record authorized transfers as receivable/payables.
20. The Board of Institutions establish policy regarding the use of state facilities for private enterprises and determine the amount due the state from the physician's genetic research fund.

EASTERN MONTANA COLLEGE

1. The state controller review the nature of moneys held by the college and prescribe the state treasury funds in which the moneys are to be deposited.
2. Transfer bank balances to appropriate funds in state treasury and deposit future receipts therein.
3. Deposit all moneys collected in the state treasury promptly upon receipt.
4. Work in conjunction with the land board and Department of Administration to establish an effective central investment function.
5. The state controller obtain from the college information related to bonded indebtedness.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

EASTERN MONTANA COLLEGE (Continued)

6. Take complete physical inventory of all fixed assets, assign identification numbers, and attach tags or stickers to individual equipment items.
7. Adjust general ledger control accounts to agree with physical count and detail records, record future additions and deletions on a current basis, and periodically reconcile the detail records to the control accounts.
8. Limit vacation allowances to administrative employees to the statutory rates.
9. Evaluate factors involved in implementing a formal system of documenting time expended by faculty on their activities and implement such a system.
10. Convert the college payroll to the central payroll system.
11. Establish more precise regulations regarding consulting fees, etc., earned by college personnel.
12. The State Board of Equalization establish a reporting procedure to provide for disclosure of consultation fees, etc., paid to Eastern personnel.
13. Seek clarification from the attorney general concerning use of excess student building fees.
14. The state controller establish an account in the appropriate treasury fund to receive, hold, and disburse all moneys available for general support operations of the college.
15. Collect administrative costs and allocate them on formulated pro rata basis.
16. Deposit administrative cost reimbursements as revenue to General Fund to extent costs were included in appropriated moneys.
17. Eliminate agency series accounts with negative balances and refrain from borrowing from agency accounts without specific approval.
18. Record the \$57,313 loan from agency accounts for Cisel Hall renovation as a liability and consult with the state controller as to method of repaying the loan.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

EASTERN MONTANA COLLEGE (Continued)

19. Abolish the Discretionary Account, reimburse the P.E. Building holding account, deposit the remaining account balance as revenue to General Fund, and make future expenditures from the appropriate account in the state treasury.

UNIVERSITY OF MONTANA

1. Establish a more simplified and uniform accounting system.
2. Record and recognize all foundation and bookstore assets.
3. Perform complete monthly reconciliations.
4. Confer with the state controller to identify auxiliary enterprise operations and appropriate methods of accounting and budgeting.
5. The state controller prescribe the state treasury funds in which university collections are to be deposited.
6. Transfer bank account balances to state treasury funds prescribed by the state controller and deposit future receipts therein.
7. Deposit all federal moneys in the state treasury.
8. The state controller establish a clearance account in the state treasury to receive and account for student fees deposited by the university.
9. Deposit all student fees in the state treasury as soon as possible after collection.
10. Evaluate and implement a formal system of documenting the time expended by faculty personnel by the nature of their work.
11. Work with the state controller and state auditor to place the university on the central payroll system.
12. Limit vacation allowances to administrative employees to the rates provided by statute.
13. Consult with the State Board of Equalization and Federal Internal Revenue Service to determine the procedures necessary to properly report the payment of outside consultant fees and insure the collection of taxes.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

UNIVERSITY OF MONTANA (Continued)

14. Establish a central point of control over all fixed assets.
15. Establish realistic and accurate records to control property.
16. Deposit the proceeds from bond sales in the state treasury and write future bond indentures to this effect.
17. Seek an opinion from the attorney general as to the propriety of levying a uniform use fee for the university center.
18. The state controller establish guidelines for the classification of receipts as revenue or as reductions of expenditures.
19. The state controller establish an account in the appropriate treasury fund to receive, hold, and disburse all moneys available for general support operations of the university.
20. Establish a point of central receiving incorporating a system of receiving reports.
21. Reorganize and centralize all purchasing done by departments of the university within one office.
22. Transfer all present research, training, and similar grants to an administrative function under the direct control and supervision of the university.
23. Establish a positive means to segregate state moneys from foundation moneys in the accounting and banking structure.
24. Deposit all payments for bookkeeping and similar administrative services in the state treasury as revenue to the General Fund.
25. Establish written procedures over the control and accounting for student loans.
26. Determine the circumstances under which it is in the best interests of the university and the state to waive or reduce fees under circumstances not presently allowable by law.
27. Seek legislation to provide the statutory authority for the waiver or reduction of fees in those circumstances where such waiver or reduction is in the best interests of the university and the state.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

UNIVERSITY OF MONTANA (Continued)

28. Calculate the number of non-resident student fee waivers on the basis of the average number of students in attendance during the preceding year.

MONTANA STATE UNIVERSITY

1. Establish a uniform university accounting system which meets management needs and is compatible with the statewide system currently under development.
2. Establish a written policies and procedures manual for business and accounting functions.
3. The state controller prescribe the state treasury funds to which university moneys are to be deposited.
4. Transfer bank account balances to state treasury funds prescribed by the state controller and deposit future receipts therein.
5. The state controller establish a clearance account in the state treasury to receive and account for student fees deposited by the university.
6. Deposit all student fees in the state treasury as soon as possible after collection.
7. The state controller establish an account in the appropriate treasury fund to receive, hold, and disburse all moneys available for general support operations of the university.
8. The state controller establish a statewide policy regarding the issuance of checks, claims, and warrants for nominal amounts.
9. Identify, evaluate, and record all university cash in the accounting records.
10. Work with the land board and State Department of Administration in implementing an effective central state investment function.
11. Establish a central billing and receivable section within the business office.

APPENDIX D (Continued)

OFFICE OF THE LEGISLATIVE AUDITOR  
SUMMARY OF MAJOR RECOMMENDATIONS  
MADE DURING 1969 AND 1970

MONTANA STATE UNIVERSITY (Continued)

12. Expedite the present effort to inventory all capital equipment, adjust the accounting records accordingly, and perform physical counts of all capital equipment items on a regularly scheduled basis in the future.
13. Expand purchasing function to encompass the experiment station and extension service.
14. Establish systematic means of assembling data on repetitive purchases of similar class items and establish term contracts for the purchase of such items.
15. Work with the state controller and state auditor to place the university on the state central payroll system.
16. Limit vacation allowances to administrative employees to the rates provided by statute.
17. Evaluate and implement a formal system of documenting the time expended by faculty personnel by the nature of their work.
18. Establish a central travel section within the business office.

LEGISLATIVE COUNCIL

1. Establish written agreements with bill drafters and provide supporting statements for claims for payments to bill drafters.
2. Maintain employee attendance records and records on a current basis of employees' vacation, sick leave, and overtime.
3. Consider requesting future council operations be financed from single appropriations.
4. Consider initiating timekeeping and cost allocation system for individual studies and evaluations.

## APPENDIX E

### THE LEGISLATIVE AUDIT ACT

#### TITLE 79, CHAPTER 23, R.C.M. 1947

Section 1. Title and purpose of act. This act may be cited as "The Legislative Audit Act." Because the legislative assembly is responsible for authorizing the expenditure of public moneys, designating the sources from which moneys may be collected, shaping the administration to perform the work of state government, and is held finally accountable for fiscal policy, the legislative assembly should also be responsible for the audit of fiscal accounts and records so that it may be assured that its directives have been faithfully carried out. It is the intent of this act that each agency of state government be audited for the purpose of furnishing the legislative assembly with factual information vital to the discharge of its legislative duties.

#### Section 2. Definitions. In this Act

(1) "State Agency" means all offices, departments, boards, commissions, institutions, universities, colleges, and any other person or any other administrative unit of state government that spends or encumbers public moneys by virtue of an appropriation from the legislative assembly, or that handles money on behalf of the state, or that holds any trust or agency moneys from any source.

(2) "Committee" means the legislative audit committee.

Section 3. Legislative audit committee--appointment and term of members--officers. The legislative audit committee consists of four (4) members of the Senate and four (4) members of the House of Representatives appointed before the sixtieth legislative day in the same manner as standing committees of the respective houses are appointed. A vacancy on the committee occurring when the legislative assembly is not in session shall be filled by the selection of a member of the legislative assembly by the remaining members of the committee. No more than two (2) of the appointees of each house shall be members of the same political party. Membership on the committee shall terminate with the termination of each member's term of office, or on December 31 of the year following the year in which the appointment was made, whichever event first occurs. The committee shall elect one of its members as chairman and such other officers as it deems necessary.

Section 4. Meetings. The committee shall meet once each quarter to advise and consult with the legislative auditor. Committee members shall be reimbursed from the appropriation to the office of the legislative auditor for their actual and necessary expenses incurred as a result of such interim meetings.



## APPENDIX E (Continued)

Section 5. Appointment and qualifications of legislative auditor. The committee shall appoint the legislative auditor and set his salary. The legislative auditor shall hold a degree from an accredited college or university with a major in accounting or an allied field and shall have at least two (2) years experience in the field of governmental accounting and auditing.

Section 6. Appointment of employees. The legislative auditor may appoint whatever employees are necessary to carry out the provisions of this act, within the limitations of legislative appropriations.

Section 7. Term and removal of legislative auditor. The legislative auditor is solely responsible to the legislative assembly. He shall hold office for a term of two (2) years beginning with July 1 of each odd numbered year. The committee may remove him for misfeasance, malfeasance or nonfeasance in office at any time after notice and hearing.

Section 8. Duties of legislative auditor. The legislative auditor shall

(1) Audit the financial affairs and transactions of every state agency at least once each biennium.

(2) Make a full, complete and written report of each audit. A copy of each report shall be furnished to the state controller, to the state agency which is audited, to each member of the committee, and to the legislative council.

(3) Report immediately in writing to the attorney general any apparent violation of penal statutes disclosed by the audit of a state agency, and furnish the attorney general all information in his possession relative to the violation.

(4) Report immediately in writing to the governor any instances of misfeasance, malfeasance or nonfeasance by a state officer or employee disclosed by the audit of a state agency.

(5) Report immediately to the surety upon the bond of any official or employee when an audit discloses a shortage in the accounts of the official or employee. The failure to notify the surety does not release the surety from any obligation under the bond.

(6) Report to the legislative assembly during the first week of each regular session. Each biennial report shall contain, among other things, copies of, or summaries of audit reports on state agencies and any recommendations relating to such reports.

Section 9. Audit standards and objectives. The objectives of audits of state agencies conducted by the legislative auditor are to determine whether

(1) The agency is carrying out only those activities or programs authorized by the legislative assembly and is conducting them efficiently and effectively.



## APPENDIX E (Continued)

(2) Expenditures are made only in furtherance of authorized activities and in accordance with the requirements of applicable laws and regulations.

(3) The agency collects and accounts properly for all revenues and receipts arising from its activities.

(4) The assets of the agency or in its custody are adequately safeguarded and controlled and utilized in an efficient manner.

(5) Reports and financial statements by the agency to the governor, the legislative assembly, and central control agencies disclose fully the nature and scope of the activities conducted, and provide a proper basis for evaluating the agency's operations.

Section 10. Recommendations of legislative auditor. The reports of the legislative auditor may include comments, recommendations and suggestions, but he shall have no power to enforce them nor shall he otherwise influence or direct executive or legislative action.

Section 11. Legislative auditor to assist legislative assembly during sessions. During sessions of the legislative assembly, the legislative auditor and his staff, when requested, shall assist the legislative assembly, its committees, and its members by gathering and analyzing information relating to the fiscal affairs of state government.

Section 12. Information from state agencies. All state agencies shall aid and assist the legislative auditor in the auditing of books, accounts and records. The legislative auditor may examine at any time the books, accounts and records, confidential or otherwise, of a state agency; however, this shall not be construed as authorizing the publication of information which the law prohibits publishing.

Section 13. Audit charge against earmarked money.

(1) As used in this section

(a) "Earmarked money" means a fund, account or any other money, other than general fund money, but excluding trust or agency money, that is earmarked for the support of a particular agency, program or service.

(b) "Audit charge" means the actual cost of the audit of a state agency by the legislative auditor as computed by the legislative auditor, but not more than seventy-five dollars (\$75) per audit staff person per day.

(2) At the request of the legislative auditor, a state agency shall transfer to the general fund from earmarked moneys under its control an amount equal to the audit charge multiplied by the percentage that the annual expenditure of earmarked moneys is of the total annual expenditure of the state agency.

## APPENDIX F

### RULES OF THE LEGISLATIVE AUDIT COMMITTEE

(1) Purpose. The purpose of these rules is to form a basis for the operations of the Legislative Audit Committee and to inform the members of the Legislative Assembly of the Audit Committee's procedure in order that they may assist by their suggestions and resolutions, and by studying problems that may come before the Legislative Assembly.

(2) Parliamentary Procedure. Except as otherwise specified by these rules, the proceedings of the Legislative Audit Committee shall be governed by the Joint Rules of the House and Senate of the Legislative Assembly, so far as they are applicable, together with Mason's Manual of Legislative Procedure.

(3) Officers. The Legislative Audit Committee shall elect, from its membership, a chairman, a vice chairman, and a secretary who shall serve during the legislative interim for which they are elected. Upon the election of the chairman, the vice chairman shall be elected from the other legislative body. The Legislative Auditor shall assist the secretary of the Audit Committee.

(4) Location. The Legislative Audit Committee shall maintain offices in the State Capitol, and all regular meetings shall be held at such offices, but the chairman may call special meetings at any other place.

(5) Meetings. Regular meetings of the Legislative Audit Committee shall be held at the call of the chairman but shall be held not less than once each quarter. Upon written request to the chairman of the Legislative Audit Committee by a majority of the members, the chairman is required to call a special meeting.

(6) Quorum. Six members of the Legislative Audit Committee shall constitute a quorum, and a vote of six members on the prevailing side is required to carry any motion. All members of the Committee must be present to organize and elect officers.

(7) Special Audits. The Legislative Audit Committee, upon motion duly made and carried at any regular or special meeting of the committee, shall direct the Legislative Auditor to make any special audit or investigation and to take such action thereon as, in its judgment, is proper and necessary to carry out the purpose and intent of Chapter 249, Laws of 1967, codified as Sections 79-2301 through 79-2313, R.C.M. 1947.

Any member of the Legislative Assembly, who is not a member of the Committee, may, by written request filed with the Legislative Audit Committee at least six (6) days prior to any regular or special meeting of said Committee, request a special audit of any agency of the state, and upon a vote of six or more members of the Legislative Audit Committee approving such request, the Legislative Auditor shall make such audit.

APPENDIX F (Continued)

(8) Assistance to Individual Legislators. The Legislative Auditor shall furnish routine financial information on any state agency to any member of the Legislative Assembly. Other than routine financial information on any state agency, shall be furnished with the approval of the Chairman and Vice-Chairman of the Legislative Audit Committee.

(9) Roll Call. A roll call shall be taken upon any question upon demand of members.

(10) Reports. The Legislative Auditor shall forward to the members of the Legislative Audit Committee a copy of all audit reports. A final audit report is a report that has been approved by the Legislative Audit Committee. A copy of any final audit report may be forwarded to any member of the Legislative Assembly upon request. News releases shall not be made to the press, radio, or television until after the Committee has officially met to review the audit report of the state agency in question.

(11) Change of Rules. These rules may be suspended by a vote of six of the members of the Committee. Amendments to the rules may be made, after six days' written notice of intent thereof, together with a copy of the proposed change, by a vote of six members of the Committee.

## APPENDIX G

### MONTANA LEGISLATIVE COUNCIL 1962 REPORT "FISCAL CONTROL" SUMMARY - POST AUDITING FUNCTION

"Reduced to the simplest definition, a post audit is a review of fiscal transactions after they have been completed. Everyone agrees that some kind of independent post spending examination is an essential element of good fiscal control. Where does this function belong in the structure of government?

If the job of post auditing is given to the executive branch of government, the illogical situation exists, contrary to good fiscal principles, of an agency auditing its own accounts. Since the function is outside the traditional role of the judicial branch, theoretically this leaves only the legislature as the proper branch to perform the post audit. If we are to preserve the fundamental tenets of our governmental system and retain a balance of power among the three branches of government, if we are to protect the people from the dangers of too great a concentration of power in one branch, we must give the responsibility for post auditing to the legislative branch of government. Currently twenty-one states have assigned post auditing to an agency of the legislative branch.

A legislative post audit could help correct the imbalance of power that has resulted from giving the governor budgeting powers. There has been no parallel emphasis on the creation or improvement of legislative tools to enable the legislature to keep abreast of developments in the executive branch and to make prudent legislative policy with respect to it. The expansion and increase in complexity of the executive branch challenges the legislature's ability to maintain its role as a separate and equal branch of government, exercising checks on the executive branch.

Responsible government demands that the representative body be held to final accountability for fiscal policy. But this responsibility cannot be met if post auditing is exercised by the executive branch or by an independently elected auditor. The legislature has the right to get a complete, unbiased financial picture of state governmental operations, and, human nature being what it is, there is some reason to expect that its best chance of getting such a picture might be from its own agent.

An analogy can be drawn to private business. Generally a post audit for a corporation is made to assist the board of directors and stockholders to determine whether capital and earnings are being prudently employed. The post audit is made at the direction of the board of directors acting for the stockholders. It is generally accepted governmental fiscal practice to require that a post audit of a governmental agency be addressed to the body which provides the funds for the activities undertaken by the agency. That body is the legislature.

In Montana, the state examiner is required by law to examine all state agencies and institutions "having the control, management, collection or disbursement of any public moneys of any character or description."

## APPENDIX G (Continued)

However, thirty-seven state agencies that regularly spend state moneys are never examined as a result of the interpretation of the law by the state examiner. In fact, even when an agency is examined, only programs that involve the collection or disbursement of cash are subjected to scrutiny.

Not only is the examination of state agencies by the state examiner contrary to our system of constitutional checks and balances, it is a function that is essentially alien to the primary programs of the state examiner's office--the examination of municipalities and private financial institutions.

The Council recommends that an auditor responsible to the legislative assembly be given responsibility for post auditing all state agencies. The purpose of this audit would be to determine if (1) the agency is carrying on only those programs or activities authorized by the legislature, and it is conducting them efficiently; (2) expenditures are made only in furtherance of authorized activities and in accordance with applicable laws and regulations; (3) the agency collects and accounts properly for all revenues and receipts arising from its activities and the assets of the agency are adequately safeguarded; and (4) reports and financial statements by the agency disclose fully the nature and scope of the activities conducted, and provide a proper basis for evaluating the agency's operations.

The Council recommends the creation of a bipartisan legislative audit committee consisting of two senators and two house members that would meet quarterly to advise and consult with the legislative post auditor, who would be appointed by the committee. The auditor, however, would be responsible solely to the legislative assembly and would hold office for a term of two years.

Neither the auditor nor the committee would have any direct powers of enforcement. The auditor's report to the legislature could include comments, recommendations and suggestions, but by law he would be prohibited from otherwise influencing or directing executive or legislative action."

# APPENDIX H

## OFFICE OF THE LEGISLATIVE AUDITOR STATEMENT OF CHANGES IN APPROPRIATION BALANCE TWO YEARS ENDED DECEMBER 31, 1970

	<u>Year Ended December 31, 1970</u>	
	<u>1969</u>	<u>1970</u>
Appropriation Balance at Beginning of Year	\$ 27,547	\$344,378
Appropriations from the 41st Legislative Assembly:		
Supplemental Appropriation for 1967-69	5,000	-
Appropriation for 1969-71	403,638	-
Expenditures:		
Personal Services	\$74,208	\$191,518
Operation	11,649	35,475
Capital	<u>5,060</u>	<u>1,403</u>
	90,917	228,396
Reversion	<u>890</u>	<u>-</u>
Appropriation Balance at End of Year	<u>\$344,378</u>	<u>\$115,982</u>





